

**CITY OF KINGSTON LOCAL
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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KIMBALL & O'BRIEN PC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
City of Kingston Local Development Corporation
Kingston, New York

We have audited the accompanying statement of net assets of the City of Kingston Local Development Corporation (a nonprofit organization which is a component unit of the City of Kingston) as of December 31, 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kingston Local Development Corporation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2009, on our consideration of the City of Kingston Local Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KIMBALL & O'BRIEN PC

By  _____

November 12, 2009

KLDC

KINGSTON LOCAL DEVELOPMENT CORPORATION

James M. Sottile, President

Michael F. Murphy
Portfolio Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS

*John H. Dwyer,
Vice President*

*Daniel P. Mills
Treasurer*

*Bradley Jordan,
Secretary*

Rev. James Childs

Glenn Fitzgerald

Ray Guerin

Richard B. Mathews

Bruce McLean

Nan Potter

Thomas J. Reinhardt

Our discussion and analysis of the **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION's** financial performance provides an overview of the Organization's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the Organization's financial statements that follow. The **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION (KLDC)** is a component unit of the City of Kingston; therefore, this discussion and analysis includes only the business-type activities of the KLDC. The KLDC is required to present its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

FINANCIAL HIGHLIGHTS

As a result of this year's operations, the Organization's net assets increased \$229,957 or 2.9% in 2008. Operating revenues decreased 39% to \$381,185 while operating expenses were \$952,344 for the year. Non operating revenues were \$808,653 for the year compared \$338,834 in the prior year. Non operating expenses of \$7,537 decreased from \$8,681 in 2007.

USING THIS ANNUAL REPORT

The only activities of the Organization are the administration of certain loan programs and operation of the Business Park for the City of Kingston which are business-type activities. Since the Organization conducts only business-type activities, this annual report consists of only the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows which provide information about the activities of the Organization only.

One of the most important questions asked about the Organization's finances is, "Is the Organization better off or worse off as a result of the year's activities?" The statements report information about the Organization's activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statements report the Organization's net assets and changes in them. You can think of the Organization's net assets—the difference between assets and liabilities—as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the condition of the Organization's Business Park to assess the overall health of the Organization.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 1 lists the amounts that have been generally invested in the Kingston Business Park. These amounts represent a net increase of \$1,518,429 or an increase of 37.6%.

Table 1
Capital Assets at Year-end
(Net of depreciation)

	<u>2008</u>	<u>2007</u>
Land	\$2,784,953	2,784,953
Building	1,854,782	0
Improvements	1,595,933	1,553,300
Construction in Progress	49,606	344,022
Equipment	<u>31,195</u>	<u>31,195</u>
Subtotals	6,316,469	4,713,470
Accumulated depreciation	<u>(756,535)</u>	<u>(671,965)</u>
Totals	<u>\$5,559,934</u>	<u>4,041,505</u>

KLDC completed construction of a 10,000 square foot building for Armor Dynamics, Inc in July of 2008 for a total cost of \$1,854,782. Armor Dynamics pays rent of \$5,000 per month for a 2 year period. The lease with Armor will be for a period of 20 years with an option to purchase prior to the end of the term. Funding for this new building came from a grant from the Dormitory Authority in the amount of \$1,000,000.00 with the remaining funds from bank financing. The company is planning an expansion of an additional 5,000 square feet in 2009. If this expansion occurs, Armor Dynamics will purchase the building from KLDC for the cost of construction less the \$1,000,000.00 grant from the Dormitory Authority.

CONDENSED COMPARATIVE FINANCIAL STATEMENTS AND ANALYSIS

The Organization's net assets changed from a year ago, increasing from \$7,977,143 to \$8,207,100. Our analysis below focuses on the net assets (Table 2) and changes in net assets (Table 3).

Table 2
Net Assets

	<u>2008</u>	<u>2007</u>
Current and other assets	\$6,377,846	11,398,543
Capital assets	<u>5,559,934</u>	<u>4,041,505</u>
Total assets	<u>11,937,780</u>	<u>15,440,048</u>
Long-term debt outstanding	3,242,290	7,186,290
Other liabilities	<u>488,390</u>	<u>276,615</u>
Total liabilities	<u>3,730,680</u>	<u>7,462,905</u>
Net assets:		
Invested in capital assets, net of debt	5,351,190	3,809,183
Restricted	50,523	47,518
Unrestricted	<u>2,805,387</u>	<u>4,120,442</u>
Total net assets	<u>\$8,207,100</u>	<u>7,977,143</u>

Table 3
Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Revenues		
Operating Revenues:		
Revenue from lending activities	\$168,467	395,234
Business Park income	211,104	185,729
Miscellaneous Revenue	1,614	43,751
Nonoperating Revenues:		
Interest and investment revenue	37,654	97,029
Capital grants	764,368	235,633
Capital Contributions	6,631	6,172
Miscellaneous	<u>0</u>	<u>0</u>
Total revenues	<u>1,189,838</u>	<u>963,548</u>
Expenses		
Lending activities	831,994	513,429
Business Park	120,350	104,333
Nonoperating expenses (interest)	<u>7,537</u>	<u>8,681</u>
Total expenses	<u>959,881</u>	<u>626,443</u>
Increase in net assets	<u>\$229,957</u>	<u>\$337,105</u>

The Organization's current revenues increased \$226,290 from the prior year. The major reason for the increase in revenue was due to the grant received for improvements to the Kingston Business Park from the Dormitory Authority Grant.

The Organization's expenses increased \$333,438 or 53.2% in 2008. This increase is attributed to allowance for bad debts, which was increased by \$600,000.00 due to a reassessment of collection of outstanding loans.

Debt

Table 4 presents detail of debt. The outstanding debt decreased 54.9% during the year due to the full repayment of 108 notes due to HUD on the Noah Hotel loan.

Table 4
Outstanding Debt at Year-end

	<u>2008</u>	<u>2007</u>
DOT(Kingston Business Park)	157,290	157,290
HUD Loans	<u>3,085,000</u>	<u>7,029,000</u>
Total Loans	<u>\$3,242,290</u>	<u>\$7,186,290</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Since the Organization is only engaged in business-type activities, it does not have a legally adopted budget which carries the force of law. However, the Organization's appointed board has prepared a budget to be used as a planning tool. No significant changes from the current year were anticipated in the budget.

The PILOT between Huck Manufacturing and KLDC expired at the end of 2008. They will be taxed on a commercial basis going forward.

CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the organization at Kingston Local Development Corporation, 420 Broadway, Kingston, NY 12401.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	2008
ASSETS:	
Current assets:	
Cash	\$ 1,532,146
Restricted cash	960,886
Notes receivable - current portion	729,982
Grants receivable	41,571
Other receivables	<u>126,170</u>
Total current assets	<u>3,390,755</u>
Noncurrent assets:	
Restricted cash	328,637
Notes receivable, net	2,658,454
Capital Assets:	
Land	2,784,953
Building	1,854,782
Construction in progress	49,606
Improvements	1,595,933
Equipment	31,195
Less: accumulated depreciation	<u>(756,535)</u>
Total noncurrent assets	<u>8,547,025</u>
Total assets	<u>11,937,780</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	74,570
Accrued liabilities	34,497
Due to other governments	312,759
Prepaid interest income	7,847
Bonds and notes payable - current portion	<u>270,733</u>
Total current liabilities	<u>700,406</u>
Noncurrent liabilities:	
Bonds and notes payable	1,000,000
Notes payable and temporary financing	1,971,557
Deposits	<u>58,717</u>
Total noncurrent liabilities	<u>3,030,274</u>
Total liabilities	<u>3,730,680</u>
NET ASSETS:	
Invested in capital assets, net of related debt	5,351,190
Restricted net assets	50,523
Unrestricted net assets	<u>2,805,387</u>
Total net assets	<u>\$ 8,207,100</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2008

	<u>2008</u>
OPERATING REVENUES	
Revenue from lending activities	\$ 168,467
Rental income & PILOT	211,104
Miscellaneous revenue	<u>1,614</u>
Total operating revenues	<u>381,185</u>
OPERATING EXPENSES	
Bad debt expense	600,000
Contractual services	35,783
Depreciation	84,567
Forgiveness of debt	3,534
Insurance expense	3,794
Interest expense - lending activities	167,100
Marketing	1,775
Other supplies and expenses	6,796
Personal services and benefits	34,734
Utilities	<u>14,261</u>
Total operating expenses	<u>952,344</u>
Operating loss	<u>(571,159)</u>
NONOPERATING REVENUES (EXPENSES)	
Capital grants	764,368
Interest income	37,654
Donations - Lighthouse	6,631
Lighthouse expenses	(3,626)
Interest expense	<u>(3,911)</u>
Total nonoperating revenue and expenses	<u>801,116</u>
Change in net assets	229,957
Net assets - beginning of year	<u>7,977,143</u>
Net assets - end of year	<u><u>\$ 8,207,100</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORP
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from lending activities	\$ 457,436
Receipts from rental activities	523,863
Receipts from miscellaneous revenues	1,614
Notes granted	(75,000)
Payment of expenses	<u>(80,448)</u>
Net cash provided by operating activities	<u>827,465</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contributions received	6,631
Interest paid on noncapital debt	(218,976)
Principal paid on noncapital debt	<u>(3,944,000)</u>
Net cash used by noncapital activities	<u>(4,156,345)</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:**

Proceeds from capital debt	500,000
Capital grants received	1,000,000
Lighthouse expenditures	(3,626)
Acquisition of capital assets	(1,667,364)
Principal paid on capital debt	(500,000)
Interest paid on capital debt	<u>(3,911)</u>
Net cash used by capital financing activities	<u>(674,901)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on cash investments	<u>37,654</u>
Net cash provided by investing activities	<u>37,654</u>

NET INCREASE IN CASH (3,966,127)

CASH - BEGINNING OF YEAR 6,787,796

CASH - END OF YEAR \$ 2,821,669

Cash summary:

Cash	\$ 1,532,146
Restricted cash - current	960,886
Restricted cash - noncurrent	<u>328,637</u>
Total	<u><u>\$ 2,821,669</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORP
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008

Reconciliation of operating income to net cash

provided by operating activities:

Operating loss	\$ (571,159)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	84,567
Bad debt expense	600,000
Forgiveness of debt	3,534
Interest expense included in noncapital financing for loans granted	167,100
Changes in assets and liabilities:	
Notes and other receivables, net	184,046
Deposits	293
Accounts payable and accrued liabilities	16,695
Accrued interest receivable	31,357
Due to other governments	312,759
Prepaid interest income	<u>(1,727)</u>

Net cash provided by operating activities	<u><u>\$ 827,465</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The City of Kingston Local Development Corporation (KLDC) was organized in 1994 under Not-For-Profit Corporation Law and is operated exclusively for the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, promoting instruction or training of individuals to improve or develop their capabilities for such jobs, aiding in attracting new business and industry, or by encouraging the development of, or retention of, business and industry within the City of Kingston.

The Organization is exempt from Federal income tax as an Organization described in Sec. 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting and Financial Reporting

For purposes of applying accounting and financial reporting standards, KLDC is considered a governmental entity and a component unit of the City of Kingston since all the board members are appointed by the Mayor.

As such, KLDC has implemented the requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

- The financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. KLDC has the option to also apply Financial Accounting Standards pronouncements, but has chosen not to do so.
- The Management Discussion and Analysis (MD&A) section is management's analysis of the Organization's overall financial position and results of operations.
- The financial statements are prepared using the full accrual basis for all activities. Operating revenues and expenses result from providing services.

Loans Receivable

Loans receivable are carried at their estimated collectible amounts (net of allowance for losses). Interest income on loans is recognized using the accrual method. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. Loans receivable are placed on non-accrual status when they become over 1 year past due. Upon suspension of the accrual of interest, interest income is subsequently recognized to the extent cash payments are received. Accrual of interest is resumed when loans are removed from non-accrual status. Loans receivable are charged against the allowance account when they are deemed uncollectible. As of December 31, 2008 the allowance for doubtful accounts was \$700,000.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Capital Assets

Capital assets are stated at cost including interest capitalized during the construction period on the Business Park. The improvements are being depreciated using the straight-line method over their estimated useful lives of 15 to 20 years. See Note 6 for additional information on the Park.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are external restrictions by creditors, grantors, laws or regulations of other governments. See Note 10 for additional details on restricted net assets.

NOTE 3 - CASH AND COLLATERAL

KLDC maintains cash balances at several financial institutions located in Kingston. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 each for interest and non-interest bearing accounts. Deposits at year-end were partially covered by federal depository insurance or by collateral held by a custodial bank in KLDC's name. The deposits consist of:

<u>Bank</u>	<u>Bank Balance</u>	<u>Insured (FDIC)</u>	<u>Collateralized</u>	
			<u>Bank</u>	<u>No Collateral</u>
Key Bank	\$ 180,294	180,294	-	-
M&T Bank	1,757,268	363,385	1,421,761	-
JP Morgan Chase	620,091	250,000	370,132	-
Ulster Savings Bank	173,530	173,530	-	-
Rondout Savings Bank	22,973	22,973	-	-
Senate Securities	58,717	58,717	-	-

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity.

NOTE 4 - RESTRICTED CASH

KLDC was required to set aside a portion of the loan proceeds drawn down from HUD under the section 108 loan guarantee program. These funds can only be used if the borrower is unable to repay their obligation. The balance including interest was \$58,717 as of December 31, 2008.

Four of the 108 loans were prepaid by the borrowers. Interest bearing accounts were set up to hold the funds until payments are due. As of December 31, 2008, the balance was \$269,920. In addition, the payments received on 108 loans are restricted to paying the HUD liability. As of December 31, 2008, the balances in the 108 accounts were \$960,886.

See auditors' report.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 5 - LOAN PROGRAMS

The Organization grants loans to businesses through the Community Development Revolving Loan Fund (CDRLF), the Kingston Revolving Loan Fund (KRLF), the Section 108 Loan Guarantee and the related Economic Development Initiative (EDI), the Kingston-Newburgh Enterprise Community (KNEC), the Canal Corridor Initiative (CCI) and the Micro Enterprise Program (Micro). The primary objective of all loan programs is to enhance job retention and creation in the City of Kingston. Interest rates vary but are always below the prime lending rate. In addition, KLDC grants interest-free loans for facade improvements which are forgiven over a 10-year period. Loans are generally secured by liens on real property and security interests in other business assets. Activity is summarized as follows:

	Balance 12/31/07	Loans Granted	Loan Payments	Balance 12/31/08
KRLF	\$ 476,740	75,000	115,645	\$ 436,095
CDRLF	714,945		26,231	688,714
Sec 108	2,631,250		115,487	2,515,763
EDI	100,000		-	100,000
KNEC	275,166		28,857	246,309
Micro	5,908		-	5,908
Other - Note 13	220,000		-	220,000
Facade Improvement	11,785		3,535	8,250
Total	4,435,794	75,000	289,755	4,221,039
Allowance for estimated losses	(100,000)			(700,000)
Prepaid loans	(102,128)			(81,149)
Interfund loan to KBP (Note 8)	(57,650)			(51,454)
Net	\$ 4,176,016			\$ 3,388,436
Current portion	\$ 554,267			\$ 729,982
Non-current portion, net	3,621,749			2,658,454
Net	\$ 4,176,016			\$ 3,388,436

A total of \$689,401 in loans is considered in nonaccrual status as of December 31, 2008.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 6 - KINGSTON BUSINESS PARK

KLDC owns and operates the Kingston Business Park (KBP). Phase I of the Park was substantially completed during 1997. The first tenant, Huck International, moved into its facility in May 1997. The lease is for 20 years with additional options to extend for a total of 99 years. The annual rent is \$57,000 for the first 10 years and \$72,000 for the second 10 years. In addition Huck is making payments in lieu of taxes (PILOT). KLDC's portion of the PILOT fee for 2008 was \$114,104.

A second tenant, Armor Dynamics (AD), was added to the site in 2007. KLDC negotiated a lease agreement with AD for a period of 20 years with an option to purchase prior to the end of the lease. AD may also extend the lease for 7 additional periods of 10 years plus 1 additional term of 9 years. After the third full year of the lease, AD may terminate the lease by giving KLDC 6 months written notice. The monthly lease payments of \$5,000 began in August 2008. Minimum future lease payments are as follows:

2009	\$ 60,000
2010	67,917
2011	46,083

Construction on the building for Armor Dynamics was completed in 2008. The project was partially financed by a \$1,000,000 grant from the NYS Dormitory Authority.

Capital assets related to KBP at December 31, 2008 and 2007, consisted of the following:

	Balance 12/31/07	Additions	Disposals/ Transfers	Balance 12/31/08
Land	\$ 2,784,953	-	-	\$ 2,784,953
Construction in progress	344,022	6,290	300,706	49,606
Depreciated Assets:				
Improvements	1,553,300	42,633	-	1,595,933
Buildings	-	1,854,782	-	1,854,782
Total capital assets	4,682,275	1,903,705	300,706	6,285,274
Less accumulated depreciation:				
Improvements	658,152	77,966	-	736,118
Buildings	-	3,864	-	3,864
Total accumulated depreciation	658,152	81,830	-	739,982
Net capital assets	\$ 4,024,123	1,821,875	300,706	\$ 5,545,292

Other capital assets related to the Kingston Revolving Loan Fund include equipment with a balance of \$31,195 and accumulated depreciation of \$16,549.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 7 - NOTES PAYABLE

KLDC previously entered into an agreement with the US Department of Housing and Urban Development (HUD) for loan guarantee assistance totaling \$3,420,000 under Section 108. After loans to local businesses are approved by KLDC, funds are drawn down against this authorization. KLDC pays interest on these interim loans based on the three-month London Interbank Offered (LIBO) rate plus 200 basis points. Permanent financing was received in October 1997, April 1999 and August 2001 when trust certificates guaranteed by HUD were sold in a public offering. The 1997 and 1999 notes were reissued in 2008 to take advantage of lower interest rates. The unpaid balances at that time were \$310,000 and \$150,000 respectively. The principal is due in varying amounts through August 2015. The interest rate varies between 4 and 5 percent. The 2001 note in the amount of \$1,035,000 is due in varying amounts through August 2017. The interest rate varies but is approximately 6%. \$285,000 was paid on these loans during 2008. A total of \$1,155,000 was outstanding on Section 108 loans at December 31, 2008. These loans are secured by Section 108 income, collateral from businesses and CDBG funds.

During 2005, KLDC drew down an additional \$5,359,000 under the Section 108 loan guarantee program. The first principal payment on this loan was due August 2008 with varying amounts due through 2025. Interest is payable based on the three-month London Interbank Offered (LIBO) rate plus 200 basis points and was 2.4% at December 31, 2008. \$3,659,000 was paid on this loan during 2008 including the repayment of the \$3,635,000 that was loaned to the Noah project as indicated in Note 12. A total of \$1,930,000 was due on interim Section 108 loans at December 31, 2008.

KLDC has drawn down \$157,290 from DOT as part of the financing of Phase 1A of the Business Park. The loan is interest-free and will be repaid in varying amounts over the next 5 years.

Long-term debt is payable as follows. Interest for interim 108 loans is calculated using current rates.

	<u>Principal</u>	<u>Interest</u>
2009	\$ 270,733	113,550
2010	261,458	101,890
2011	271,458	91,606
2012	276,458	80,651
2013	292,183	67,871
2014-2018	1,170,000	183,983
2019-2023	500,000	60,063
2023-2026	200,000	7,208
Total Long-term Debt	<u>\$ 3,242,290</u>	<u>706,822</u>

NOTE 8 - INTERFUND BORROWING

As of December 31, 2007 the Kingston Business Park (KBP) had borrowed \$412,000 from the EDI grant, \$214,138 from the KRLF and \$29,000 from KNEC. An additional \$17,571 was borrowed in 2008; however, no repayments were made during 2008. These loans are for construction costs and are non-interest bearing. They will be repaid after other outside loans have been repaid.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 8 – INTERFUND BORROWING (CONTINUED)

In addition, the KBP borrowed \$100,000 from the Section 108 loan program at an interest rate of 6.8117% to be repaid over 20 years in varying monthly installments with the final balance due August 2015. The balance due was \$51,454 at December 31, 2008.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

KLDC drew down \$500,000 on its line of credit with M&T Bank during 2008 to provide cash flow for the construction project outlined in Note 6. The loan was repaid in November. The interest of \$17,571 (prime plus ½ interest) was capitalized as part of the construction project. Nothing was outstanding on the \$750,000 line at December 31, 2008.

NOTE 10 - RESTRICTED NET ASSETS

Restricted net assets are used before unrestricted and are to be used for the following projects:

Donations for City Hall Improvements	\$ 16,841
Donations for Lighthouse	33,682
Total	<u>\$ 50,523</u>

NOTE 11 - DONATED SERVICES AND FACILITIES

The Organization's only staff person is also the director of the Kingston Community Development Agency (CD). All KLDC activities are conducted out of the CD office. A portion of the director's salary is allocated by the City to KLDC; however, a review of overhead expenses has not been undertaken to determine the portion that should be allocated to KLDC.

NOTE 12 – NOAH HOTEL

Funds loaned by KLDC for the Noah Hotel project were returned in full in August 2007, along with interest on the 108 portion of the loans. These funds included \$3,635,000 of Section 108 loans. In order to complete the return of funds to all other parties, KLDC was required to turn over \$220,000 of the funds that it received to one of the other parties. KLDC holds a first mortgage on the land where the hotel was to be built. The estimated fair market value of the land far exceeds the amount due to KLDC. After two years, KLDC has the right to sell the property if the developer has not sold. KLDC is currently in negotiations with the owner.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
City of Kingston Local Development Corporation
Kingston, New York

We have audited the financial statements of the City of Kingston Local Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2008, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Kingston Local Development Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control over reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the proceeding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as 2008-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Board of Directors
City of Kingston Local Development Corporation
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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider item 2008-1 noted above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kingston Local Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The City of Kingston Local Development Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Kingston Local Development Corporation's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through and is not intended to be and should not be used by anyone other than these specified parties.

KIMBALL & O'BRIEN PC

By _____

November 12, 2009

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2008

SECTION I – SUMMARY OF AUDITORS' RESULTS

	<u>Response</u>
Financial Statements	
Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not material weaknesses?	No
Noncompliance material to the financial statements noted?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

2008-1: REPORTING

Criteria – Management is responsible for the fair presentation in the financial statements of financial position and changes in financial position in conformity with U.S. generally accepted accounting principles. In addition, management is responsible for establishing and maintaining internal controls over financial reporting.

Condition – There is more than a remote likelihood of a material misstatement in the City of Kingston Local Development Corporation's financial statements.

Effect – As a result of our audit, we proposed several adjustments to the City of Kingston Local Development Corporation's financial records in order for financial position and results of operations to be presented in conformity with generally accepted accounting principles.

Cause - The individual responsible for the organization's bookkeeping does not have sufficient training in appropriate accounting methods. In addition, there is limited internal control over financial reporting due to limited management level oversight.

Recommendation – Someone with a bookkeeping background should be hired to perform basic bookkeeping tasks. Then management should develop and implement policies and procedures to ensure proper oversight of the entity's system for financial reporting. These policies should include specific procedures relating to the review of bank reconciliations and customer loan ledgers. In addition, a second approval should be required for bank transfers and draw downs on line of credit in excess of an established limit. Finally, the entity must establish policies for interim financial reporting to the board of directors.

Management's Response – By the close of 2009 KLDC expects to have hired an assistant with a bookkeeping background to enter information into the accounting system. By doing this, KLDC will improve internal controls as the Portfolio Manager will be responsible for oversight.